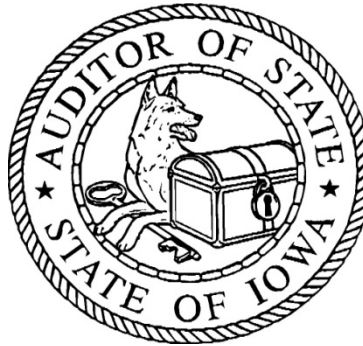


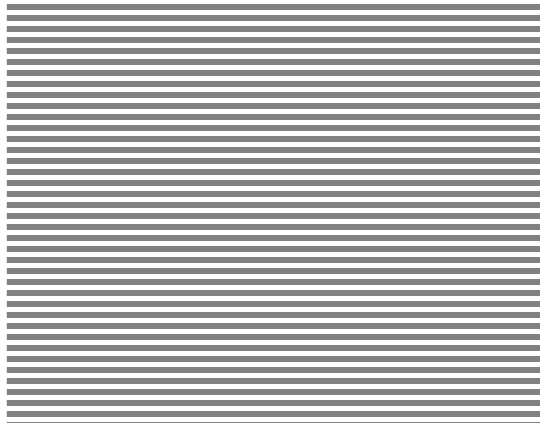
SAMPLE AREA EDUCATION AGENCY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2018

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



Mary Mosiman, CPA
Auditor of State





OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Fellow CPAs:

This sample report is presented by the Office of Auditor of State as required by Chapter 11.6 of the Code of Iowa. In developing this report, we have made every effort to ensure the highest professional standards have been followed while attempting to provide meaningful and useful information to the citizens, our ultimate client.

Audits of Area Education Agencies (AEA) should be performed in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and, if applicable, Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance).

This sample report has been prepared in conformity with U.S. generally accepted accounting principles and conforms to guidelines provided in Governmental Accounting and Financial Reporting Standards published by the Governmental Accounting Standards Board.

The format shows the basic financial statements, required and other supplementary information and the Schedule of Findings and Questioned Costs which are necessary to meet the requirements of this Office. The detail presented in the basic financial statements and supplementary information is the minimum breakdown that will be acceptable subject, of course, to materiality considerations. If the auditor and the AEA feel more detail is necessary to provide a fair presentation, this of course will be welcome. A sample such as this cannot present all situations which you may encounter, so the auditor's professional judgment must be used in determining the additional information to be shown as well as the footnotes to be presented.

AEAs with \$750,000 or more of federal expenditures are required to receive a Single Audit in accordance with the Uniform Guidance. Any questions concerning Single Audit requirements should be directed to the Agency's cognizant or oversight agency, which is generally:

Office of Inspector General
United States Department of Education
8930 Ward Parkway, Suite 2401
Kansas City, MO 64114-3302
(817) 268-0500

Iowa Department of Education
School Finance Team
Grimes Building
400 East 14th Street
Des Moines, IA 50319-0146
(515) 281-5293

In accordance with the Uniform Guidance, the reporting package and Data Collection Form shall be submitted to the central clearinghouse the earlier of 30 days after issuance of the audit report or 9 months after the reporting period. The Office of Management and Budget has designated the United States Department of Commerce, Bureau of the Census as the Single Audit Clearinghouse. The Data Collection Form and reporting package must be submitted using the Clearinghouse's Internet Data Entry System at <http://harvester.census.gov/facweb/>. The system requires the reporting package be uploaded in a single PDF file. Both the auditee and auditor contacts receive automated e-mails from the Federal Audit Clearinghouse as verification of the submission.

Under Rule 15c2-12 of the Securities and Exchange Commission governing ongoing disclosure by municipalities to the bond markets, virtually any municipality which issues more than \$1 million of securities per issue is subject to an ongoing filing responsibility. All continuing disclosure submissions must be provided to the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) system. In addition, submissions must be in an electronic format (word-searchable PDF), i.e. not scanned.


The findings on compliance, items IV-A-18 through IV-I-18, and IV-J-18 (if applicable), detail those items which are to be included regardless of whether there are any instances of non-compliance or not. Any instances of non-compliance in other areas should also be reported.

We have also included a page for listing the staff actually performing the audit. Although we have found this page to be helpful, you are not required to use it.

As required by Chapter 11.14 of the Code of Iowa, the news media are to be notified of the issuance of the audit report by the CPA firm, unless the firm has made other arrangements with the AEA for the notification. We have developed a standard news release to be used for this purpose. The news release (paper copy or electronic format) may be completed by the AEA and submitted to this Office with an electronic copy of the audit report sent by the CPA firm. Report filing requirements are detailed on the attached listing. We will make the audit report and news release available to the news media in our Office.

In accordance with Chapter 11.6(7) of the Code of Iowa, this Office is to be notified immediately regarding any suspected embezzlement, theft or other significant financial irregularities.

Finally, I would like to express my appreciation to all CPA firms who are providing audit or other services to Area Education Agencies. Together, we are able to provide a significant benefit to all taxpayers in the state.


MARY MOSIMAN, CPA
Auditor of State

Office of Auditor of State

Report Filing Requirements

Report – The AEA or CPA firm is required to submit an electronic (word-searchable PDF) copy of the audit report, including the management letter(s) if issued separately, with this Office upon release to the AEA within nine months following the end of the fiscal year subject to audit.

Per Diem Audit Billing & News Release – A copy of the CPA firm's per diem audit billing, including total cost and hours, and a copy of the news release or media notification should also be submitted. These items can be submitted as either paper copies or electronic copies (word-searchable PDF).

Filing Fee – The filing fee should be submitted based on the following designated budget strata:

Budgeted Expenditures in Millions of Dollars	Filing Fee Amount
Under 1	\$100.00
At least 1 but less than 3	\$175.00
At least 3 but less than 5	\$250.00
At least 5 but less than 10	\$425.00
At least 10 but less than 25	\$625.00
25 and over	\$850.00

Submission – Electronic submission (word-searchable PDF) of the audit report, per diem audit billing and news release should be e-mailed to SubmitReports@auditor.state.ia.us.

If you are unable to e-mail the PDF files, you may mail a CD containing the files to this Office. You may direct any questions about submitting electronic files to the above e-mail address.

An electronic (PDF format) copy of the audit report, including the management letter(s) if issued separately, should also be filed with the Iowa Department of Education. Each report should be emailed to ED.Audit@iowa.gov. For more information, call (515) 281-5293.

Paper copies (if not submitted electronically) of the per diem audit billing and news release, as well as the filing fee, should be sent to the following address:

Office of Auditor of State
State Capitol Building
Room 111
1007 East Grand Avenue
Des Moines, IA 50319-0001

Early Childhood Iowa Area Board – For Area Education Agencies which act as a fiscal agent for an Early Childhood Iowa Area Board and had additional audit procedures performed for the Area Board as a part of the AEA's audit, an electronic (word-searchable PDF) copy of the audit report, including the management letter(s) if issued separately, should be submitted to the Iowa Department of Management by e-mail attachment to Shanell.Wagler@iowa.gov.

Sample Area Education Agency

Outline of Major Changes

- A. Implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The following changes have been made to the sample report.
- Revised the Independent Auditor’s Report to include an emphasis of a matter paragraph to address the adoption of new accounting guidance related to GASB Statement No. 75.
 - Revised the Management’s Discussion and Analysis to include a paragraph in the financial highlights section addressing the restatement related to GASB Statement No. 75.
 - Amended Exhibits A, B, D and F as a result of recognition of OPEB expense in accordance with GASB Statement No. 75.
 - Revised the following note disclosures – Summary of Significant Accounting Policies (Note 1), Long-Term Liabilities (Note 4) and Other Postemployment Benefits (Note 7).
 - Included a note disclosure (Note 12) for the restatement of the beginning total OPEB liability.
 - Included the following Required Supplementary Information – Schedule of Changes in the Agency’s Total OPEB Liability, Related Ratios and Notes.

Additional Notes

1. Attached are a sample Corrective Action Plan for Audit Findings (See **Sample A**) and a sample Summary Schedule of Prior Audit Findings (See **Sample B**). These are provided for illustrative purposes only and are not intended to match the findings shown in the sample entity nor are they required to be filed with this Office.
2. AEAs are to submit the Certified Annual Report (CAR) to the Iowa Department of Education (DE) through an upload to the DE website. In order to properly certify the CAR to the DE, the AEA’s CAR must be free of errors as determined by the DE’s edit checks.

The DE does not accept amendments to the CAR. Material errors noted during the audit should be reviewed with the AEA and amended by the AEA through the “upward and downward auditor’s adjustments” to the beginning balance on the subsequent year CAR.

AEAs must certify the fiscal year 2018 CAR to the DE by September 15, 2018. If the AEA does not properly certify the CAR by the deadline, comment IV-H-18 in the Schedule of Findings and Questioned Costs should be modified as follows:

Certified Annual Report – The Certified Annual Report was not properly certified to the Iowa Department of Education by September 15, 2018.

Recommendation – In the future, the Agency should ensure the Certified Annual Report is certified timely to the Iowa Department of Education.

Response –

Conclusion –

3. Confirmations from the Iowa Department of Education will be available electronically through the web. Also, all correspondence to auditors from the Iowa Department of Education will be done by e-mail. Please send e-mail addresses or updates to marcia.krieger@iowa.gov.
 4. Following is an example footnote for an early retirement or other benefit plan or policy which meets the definition of a “termination benefit” as defined by GASB Statement No. 47.
-

Additional Notes (continued)

Sample Note – Termination Benefits

In September 2017, the Agency approved a voluntary early retirement plan for employees. Eligible employees must have completed at least fifteen years of full-time service to the Agency and must have reached the age of fifty-five on or before June 30, 2018. The application for early retirement is subject to approval by the Board of Directors.

Early retirement benefits are equal to 60% of the employee's regular contractual salary in effect during the employee's last year of employment, with a maximum retirement benefit of \$30,000.

Early retirement benefits will be paid in three equal annual installments beginning July 1, 2018.

At June 30, 2018, the Agency has obligations to eleven participants with a total liability of \$171,285. Actual early retirement expenditures for the year ended June 30, 2018 totaled \$85,642.

5. Categorical funding legislation – Iowa Code section 11.6 requires categorical funding be covered during the annual audit. Specifically:

“The examination of school offices shall include at a minimum a determination that the laws of the state are being followed, that categorical funding is not used to supplant other funding except as otherwise provided, that supplementary weighting is pursuant to an eligible sharing condition, and that postsecondary courses provided in accordance with section 257.11 and chapter 261E supplement, rather than supplant, school district courses.”

As a result, procedures to test categorical funding are included in the AEA Audit Program Guide.

The auditor is required to include a statutory comment on categorical funding in the Schedule of Findings and Questioned Costs, regardless of whether there are any instances of non-compliance or not.

An example to report non-compliance is included in item 8 of the “Additional Notes” section and item IV-K-18 of the Schedule of Findings and Questioned Costs of the Sample Community School District sample report.

6. The Early Childhood Iowa Initiative is established by Chapter 256I of the Code of Iowa. Chapter 256I.5 of the Code of Iowa requires the Department of Management and the Early Childhood Iowa State Board to establish reporting and other requirements to address the financial activities of Area Boards and audit requirements of fiscal agents for Area Boards.

If an Area Education Agency and Area Board choose to have procedures performed as part of its fiscal agent's audit, the procedures to be performed are included in a separate section of the Sample AEA audit program titled “Early Childhood Iowa Area Board”.

The Sample AEA report illustrates an example of the reporting requirements if the AEA acts as the fiscal agent for an Area Board and the audit procedures are performed as part of the AEA's audit. The required disclosure of the financial data of the Area Board is included in Note 10 to the financial statements.

Additional Notes (continued)

The auditor is also required to include a statutory comment on the Early Childhood Iowa Area Board, regardless of whether there are any instances of non-compliance or not. This statutory comment is included as item IV-J-18 in the Schedule of Findings and Questioned Costs of the Sample AEA report. The following is an example statutory comment if no instances of non-compliance are noted:

Early Childhood Iowa Area Board – Sample AEA is the fiscal agent for the Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. Financial transactions of the Area Board are included in the AEA's financial statements as an Agency Fund because of the AEA's fiduciary relationship with the organization.

No instances of non-compliance were noted as a result of the audit procedures performed.

The Sample AEA report also includes an internal control deficiency for the Early Childhood Iowa Area Board, which is reported as item II-D-18 in the Schedule of Findings and Questioned Costs.

Additional Notes (continued)**Sample A**

Sample Area Education Agency

Corrective Action Plan

Year ended June 30, 2018

Comment Number	Comment Title	Corrective Action Plan	Contact Person, Title, Phone Number	Anticipated Date of Completion
II-A-18	Segregation of Duties	We have reviewed procedures and plan to make the necessary changes to improve internal control.	Tom Claim, Administrator, (515) YYY-XXXX	November 2, 2018
II-B-18	Financial Reporting	We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.	Joe Smith, Program Director, (515) YYY-XXXX	November 2, 2018
2018-001	Unsupported Expenditures	We will revise our procedures so documentation (e.g. invoices and time cards) is maintained to support federal expenditures. We returned the \$25,589 of questioned costs to the Iowa Economic Development Authority on October 3, 2018.	Tom Claim, Administrator, (515) YYY-XXXX	Documentation to support expenditures will be maintained effective immediately. The questioned costs were returned to the Iowa Economic Development Authority on October 3, 2018.
2018-002	Segregation of Duties over Federal Revenues	We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by the Deputy Treasurer will be separated and spread among the Treasurer, Deputy Treasurer and Clerk.	Julie Ledger, Treasurer, (515) YYY-XXXX	November 2, 2018
2018-003	Financial Reporting	We have implemented an independent review process which requires review by the Program Director, effective immediately. In addition, beginning with the December 2018 quarterly report, we will submit federal financial reports within the required time frame.	Joe Smith, Program Director, (515) YYY-XXXX	Review procedures have been implemented. Timely report filing will begin with the quarter ending December 2018.

In accordance with Uniform Guidance Section 200.511(a), the Corrective Action Plan must include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.

Additional Notes (continued)

Sample B

Sample Area Education Agency

Summary Schedule of Prior Audit Findings

Year ended June 30, 2018

Comment Reference	Comment Title	Status	If not corrected, provide reason for finding's recurrence and planned corrective action or other explanation
2015-001 2016-001 2017-001	Minority Business Enterprise/ Women Business Enterprise (MBE/WBE)	No longer valid; does not warrant further action.	Over two years have passed since the reporting of this audit finding. The Grantor Agency has not followed up on this finding, nor has a management decision been issued on its part.
II-A-16 2016-002 II-A-17 2017-002	Segregation of Duties over Federal Revenues	Not corrected.	Limited staff resulting from staff turnover. Plan to segregate duties for custody, recordkeeping and reconciling among staff when positions are filled.
II-B-16 II-B-17	Capital Assets	Corrective action taken.	
2017-003	Financial Reporting	Partially corrected.	Time was necessary to develop and implement review procedures. Timely report filing will begin with the quarter ending December 2018.

In accordance with Uniform Guidance Section 200.511(a), the Summary Schedule of Prior Audit Findings must also include findings relating to the financial statements which are required to be reported in accordance with Government Auditing Standards.



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

Contact:

FOR RELEASE _____

Auditor of State Mary Mosiman today released an audit report on Sample Area Education Agency in Anywhere, Iowa.

_____ reported the Agency had revenues of \$_____ for the year ended June 30, 2018 a(n) ___ % increase (decrease) from the prior year, and included \$_____ from local sources, \$_____ from state sources and \$_____ from federal sources.

Agency expenses for the year ended June 30, 2018 totaled \$_____, a(n) ___ % increase (decrease) from the prior year, and included \$_____ for instruction, \$_____ for student support services and \$_____ for instructional staff support services.

The significant increase (decrease) in revenues and expenses is due primarily to _____.

A copy of the audit report is available for review in the Agency's Business Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

###

SAMPLE AREA EDUCATION AGENCY
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

Table of Contents

		<u>Page</u>
Officials		4
Independent Auditor’s Report		5-7
Management’s Discussion and Analysis		9-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Position	A	17
Statement of Activities	B	18-19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Position	G	24
Statement of Revenues, Expenses and Changes in Fund Net Position	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statement:		
Statement of Fiduciary Assets and Liabilities – Agency Fund	J	27
Notes to Financial Statements		28-44
Required Supplementary Information:		
Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual – All Governmental Funds and Proprietary Fund		46-47
Notes to Required Supplementary Information – Budgetary Reporting		48
Schedule of the Agency’s Proportionate Share of the Net Pension Liability		49
Schedule of Agency Contributions		50-51
Notes to Required Supplementary Information – Pension Liability		52
Schedule of Changes in the Agency’s Total OPEB Liability, Related Ratios and Notes		53
Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	56
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	57
Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund	3	59
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	4	60-61
Schedule of Expenditures of Federal Awards	5	62-63
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		65-66
Independent Auditor’s Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance		67-68

Table of Contents
(continued)

	<u>Page</u>
Schedule of Findings and Questioned Costs	69-75
Staff	76

Sample Area Education Agency

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Directors		
Lawrence Riley	President	2022
Rex Meyer	Vice-President	2022
Shirley Jones	Member	2020
Oscar Newton	Member	2020
Leda Rouse	Member	2020
Robert Burns	Member	2020
Gladys Johnson	Member	2022
Gerald Morgan	Member	2022
Gordon Smith	Member	2022

Agency

Richard L. Boss	Administrator	Indefinite
Sharon Shorthand	Board Secretary	Indefinite
Bob Balance	Business Manager and Treasurer	Indefinite



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report

To the Board of Directors of Sample Area Education Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Area Education Agency as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Area Education Agency as of June 30, 2018, and the respective changes in its financial position and, where applicable, its cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 12 to the financial statements, Sample Area Education Agency adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Agency's Proportionate Share of the Net Pension Liability, the Schedule of Agency Contributions and the Schedule of Changes in the Agency's Total OPEB Liability, Related Ratios and Notes on pages 9 through 14 and 46 through 53 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sample Area Education Agency's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2017 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2018 on our consideration of Sample Area Education Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Sample Area Education Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Sample Area Education Agency's internal control over financial reporting and compliance.

MARY MOSIMAN, CPA
Auditor of State

September 17, 2018

Sample Area Education Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sample Area Education Agency provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2018. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- The Agency implemented Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, during fiscal year 2018. The beginning net position for governmental activities was restated by \$532,260 to retroactively report the increase in the OPEB liability as of July 1, 2017. OPEB expense for fiscal year 2017 and deferred outflows of resources at June 30, 2017 were not restated because the information needed to restate those amounts was not available.
- General Fund revenues increased from \$15,495,554 in fiscal year 2017 to \$16,265,957 in fiscal year 2018. The increase in General Fund revenues was attributable to an increase in local and federal grant revenue in fiscal year 2018.
- General Fund expenditures increased from \$17,302,985 in fiscal year 2017 to \$18,199,767 in fiscal year 2018. The increase in expenditures was due primarily to an increase in services provided to local school districts.
- The Agency's General Fund balance decreased from \$4,962,836 at the end of fiscal year 2017 to \$2,885,747 at the end of fiscal year 2018, a 42% decrease. One reason the General Fund balance decreased is because the services provided to local school districts were greater than the Agency's increase in General Fund revenue for fiscal year 2018. As a result, the Agency funded a portion of the current year General Fund services from the carryover fund balance.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Sample Area Education Agency as a whole and present an overall view of the Agency's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, the Agency's proportionate share of the net pension liability and related contributions, as well presenting the Schedule of Changes in the Agency's Total OPEB Liability, Related Ratios and Notes.

Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Agency's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference reported as net position. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net position and how it has changed. Net position is one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net position is an indicator of whether financial position is improving or deteriorating. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities are divided into two categories:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services and administration. Local school districts, federal and state aid finance most of these activities.
- *Business type activities:* The Agency charges fees to help cover the costs of certain services it provides. The Agency's cooperative purchasing program is included here.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show it is properly using certain revenues, such as federal grants.

The Agency has three kinds of funds:

- Governmental funds account for most of the Agency's basic services. These focus on how cash and other financial assets readily converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include 1) the General Fund, 2) the Special Revenue Funds, 3) the Debt Service Fund and 4) the Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- Proprietary funds account for services for which the Agency charges a fee. Proprietary funds are reported in the same way as the government-wide financial statements. The Agency's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The Agency currently has one Enterprise Fund, the Cooperative Purchasing Fund.

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

- Fiduciary funds are funds through which the Agency administers and accounts for certain federal and/or state grants as a fiscal agent. The Agency is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The Agency excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statement for fiduciary funds is a Statement of Fiduciary Assets and Liabilities.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Sample Area Education Agency's net position at the end of fiscal year 2018 totaled approximately \$(3.8) million compared to approximately \$(2.6) million at the end of fiscal year 2017, prior to restatement. The analysis that follows focuses on the net position and changes in net position.

	Condensed Statement of Net Position					
	(Expressed in Thousands)					
	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2017	2017	2017	2017	2017	2017
	2018 (Not Restated)	2018 (Not Restated)	2018 (Not Restated)	2018 (Not Restated)	2018 (Not Restated)	2018 (Not Restated)
Current and other assets	\$ 6,327	8,213	13	15	6,340	8,228
Capital assets	4,542	3,247	-	-	4,542	3,247
Total assets	10,869	11,460	13	15	10,882	11,475
Deferred outflows of resources	2,340	1,721	-	-	2,340	1,721
Long-term obligations	12,725	9,507	-	-	12,725	9,507
Other liabilities	3,204	2,893	2	1	3,206	2,894
Total liabilities	15,929	12,400	2	1	15,931	12,401
Deferred inflows of resources	1,123	3,429	-	-	1,123	3,429
Net position:						
Net investment in capital assets	3,642	2,230	-	-	3,642	2,230
Restricted	686	1,129	-	-	686	1,129
Unrestricted	(8,171)	(6,007)	11	14	(8,160)	(5,993)
Total net position	\$ (3,843)	(2,648)	11	14	(3,832)	(2,634)

Prior to restatement, the Agency's total net position decreased 45% or approximately \$1,195,000, from fiscal year 2017. The decrease occurred primarily in governmental activities as a result of providing more services to local school districts during the year ended June 30, 2018.

The following analysis details the changes in net position resulting from the Agency's activities.

	Changes in Net Position (Expressed in Thousands)					
	Governmental Activities		Business Type Activities		Total	
	Year ended June 30,		Year ended June 30,		Year ended June 30,	
	2017	2017	2017	2017	2017	2017
	2018 (Not Restated)	2018 (Not Restated)	2018 (Not Restated)	2018 (Not Restated)	2018 (Not Restated)	
Revenues:						
Program revenues:						
Charges for service	\$ 280	276	254	250	534	526
Operating grants and contributions	7,441	7,389	-	-	7,441	7,389
General revenues:						
Property tax	5,927	5,895	-	-	5,927	5,895
State foundation aid	6,351	6,138	-	-	6,351	6,138
Non-categorical Federal funding	42	41	-	-	42	41
Unrestricted investment earnings	191	222	-	-	191	222
Total revenues	20,232	19,961	254	250	20,486	20,211
Expenditures/Expenses:						
Instruction	7,173	6,794	-	-	7,173	6,794
Student support services	4,621	4,237	-	-	4,621	4,237
Instructional staff support services	5,222	4,935	-	-	5,222	4,935
General administration	2,069	1,928	-	-	2,069	1,928
Business administration	803	661	-	-	803	661
Plant operations and maintenance	345	341	-	-	345	341
Central and other support services	620	601	-	-	620	601
Long-term debt interest	41	46	-	-	41	46
Non-instructional programs	-	-	257	251	257	251
Total expenses	20,894	19,543	257	251	21,151	19,794
Changes in net position	(662)	418	(3)	(1)	(665)	417
Net position beginning of year, as restated	(3,181)	(3,066)	14	15	(3,167)	(3,051)
Net position end of year	\$ (3,843)	(2,648)	11	14	(3,832)	(2,634)

Property tax and state foundation aid account for 60.7% of the total revenue while operating grants and contributions from local, state and federal sources account for 36.8% of the total revenue. The Agency's expenditures/expenses primarily relate to instruction and student and instructional staff support services, which account for 81.4% of total expenses.

Governmental Activities

Revenues for governmental activities were \$20,232,605 and expenses were \$20,894,556. In a difficult budget year, the Agency was able to use some of the carryover balances to pay for the additional services offered to and needed by local school districts.

Business Type Activities

Revenues of the Agency's business type activities were \$253,221, a 1.6% increase over the prior year, while expenses totaled \$256,552, a 2.4% increase over the prior year. The Agency's business type activity is the Cooperative Purchasing program. Revenues for this activity are comprised of charges for service. Expenses are for the purchase of items for resale.

INDIVIDUAL FUND ANALYSIS

As previously noted, Sample Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported combined fund balances of \$3,123,091 were \$2,385,537 below last year's ending fund balances of \$5,508,628. The primary reasons for the decrease in combined fund balances at the end of fiscal year 2018 were the increased services provided to local school districts and the near completion of a new learning center.

Governmental Fund Highlights

- The Agency's decreasing General Fund financial position is the product of many factors, including growth during the year in the number of students served and the services needed by local school districts. The increase in revenues was more than offset by the Agency's increase in General Fund expenditures, requiring the Agency to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$4,962,836 to \$2,885,747 due to additional services provided.
- The Special Revenue, Special Education Instruction Fund revenues and expenditures remained consistent when compared to the prior year. The ending fund balance increased \$155,748 from the prior year to \$192,363.

Proprietary Fund Highlights

- The Cooperative Purchasing Fund's net position decreased from \$14,223 at June 30, 2017 to \$10,892 at June 30, 2018, representing a decrease of approximately 23%. The Agency has not revised its pricing policies in the past 3 years and has reported a net loss for the second consecutive year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Agency amended its budget once to reflect additional revenues and expenditures associated with the additional services needed and provided to local school districts.

The Agency's total revenues were \$184,210 less than total budgeted revenues, a variance of less than 1%. Total expenditures were \$606,305 less than budgeted, a variance of 2.6%.

A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the Required Supplementary Information section of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the Agency had invested approximately \$4.5 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, intangibles, computers and audio-visual equipment. This is a net increase of approximately \$1.3 million over last year. This increase was primarily due to the continued construction of the new learning center and an increase in library materials, many of which are included in the new learning center.

Sample Area Education Agency had depreciation/amortization expense of \$479,464 in fiscal year 2018. Detailed information about capital assets is presented in Note 3 to the financial statements.

Long-Term Debt

At June 30, 2018, the Agency had \$899,388 of long-term debt outstanding, compared to \$1,007,111 at June 30, 2017. More detailed information about the Agency's long-term liabilities is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of several existing circumstances which could significantly affect its financial health in the future:

- The Agency has experienced an increase in the number of students being served by its programs in the past three years. A slight increase in enrollment is expected and included in the budget based on requests from local school districts.
- The Agency has evaluated its pricing policies regarding the cooperative purchasing program. The Board of Directors has approved an increase in the administrative fee charged, so revenues are anticipated to increase in the next fiscal year.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency's Business Manager's Office, 77 Sunset Strip, Anywhere, Iowa, 50000-XXXX.

Basic Financial Statements

Sample Area Education Agency

Sample Area Education Agency

Statement of Net Position

June 30, 2018

	Governmental Activities	Business Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 4,837,053	8,586	4,845,639
Receivables:			
Accounts	909,094	-	909,094
Accrued interest	8,937	-	8,937
Due from other governments	359,629	3,564	363,193
Inventories	202,314	958	203,272
Prepaid expenses	9,774	-	9,774
Capital assets, net of accumulated depreciation/amortization	4,541,840	-	4,541,840
Total assets	10,868,641	13,108	10,881,749
Deferred Outflows of Resources			
Pension related deferred outflows	2,075,726	-	2,075,726
OPEB related deferred outflows	264,872	-	264,872
Total deferred outflows of resources	2,340,598	-	2,340,598
Liabilities			
Accounts payable	2,328,562	2,216	2,330,778
Salaries and benefits payable	746,260	-	746,260
Advances from grantors	128,888	-	128,888
Long-term liabilities:			
Portion due or payable within one year:			
Certificates of participation	60,854	-	60,854
Capital leases	45,268	-	45,268
Compensated absences	80,653	-	80,653
Portion due or payable after one year:			
Certificates of participation	610,153	-	610,153
Capital leases	183,113	-	183,113
Compensated absences	111,122	-	111,122
Net pension liability	10,309,490	-	10,309,490
Total OPEB liability	1,324,360	-	1,324,360
Total liabilities	15,928,723	2,216	15,930,939
Deferred Inflows of Resources			
Pension related deferred inflows	1,123,060	-	1,123,060
Net position			
Net investment in capital assets	3,642,452	-	3,642,452
Restricted for:			
Debt service	2,513	-	2,513
Categorical funding	53,926	-	53,926
Media materials	395,000	-	395,000
Special education instruction	192,363	-	192,363
Capital projects	42,468	-	42,468
Unrestricted	(8,171,266)	10,892	(8,160,374)
Total net position	\$ (3,842,544)	10,892	(3,831,652)

See notes to financial statements.

Sample Area Education Agency

Statement of Activities

Year ended June 30, 2018

	Program Revenues		
Expenses	Charges for Service	Operating Grants and Contributions	
Functions/Programs:			
Governmental activities:			
Regular instruction	\$ 7,173,158	23,985	2,156,118
Student support services	4,620,775	18,123	3,112,005
Instructional staff support services	5,221,690	181,968	2,172,480
General administration	2,068,917	-	-
Business administration	802,943	-	-
Plant operations and maintenance	345,444	-	-
Central and other support services	620,362	56,129	-
Interest on long-term debt	41,267	-	-
Total governmental activities	20,894,556	280,205	7,440,603
Business type activities:			
Non-instructional programs:			
Cooperative purchasing	256,552	253,221	-
Total	\$ 21,151,108	533,426	7,440,603

General revenues:

Property tax levied for general purposes

State foundation aid

Non-categorical federal funding

Unrestricted investment earnings

Total general revenues

Change in net position

Net position beginning of year, as restated

Net position end of year

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business type Activities	Total
(4,993,055)	-	(4,993,055)
(1,490,647)	-	(1,490,647)
(2,867,242)	-	(2,867,242)
(2,068,917)	-	(2,068,917)
(802,943)	-	(802,943)
(345,444)	-	(345,444)
(564,233)	-	(564,233)
(41,267)	-	(41,267)
(13,173,748)	-	(13,173,748)
-	(3,331)	(3,331)
(13,173,748)	(3,331)	(13,177,079)
5,926,841	-	5,926,841
6,351,468	-	6,351,468
42,445	-	42,445
191,043	-	191,043
12,511,797	-	12,511,797
(661,951)	(3,331)	(665,282)
(3,180,593)	14,223	(3,166,370)
\$ (3,842,544)	10,892	(3,831,652)

Exhibit C

Sample Area Education Agency

Balance Sheet
Governmental Funds

June 30, 2018

	General	Special Revenue Special Education Instruction	Nonmajor	Total
Assets				
Cash, cash equivalents and pooled investments	\$ 4,792,072	-	44,981	4,837,053
Receivables:				
Accounts	292,998	616,096	-	909,094
Accrued interest	8,937	-	-	8,937
Due from other governments	310,742	-	48,887	359,629
Inventories	202,314	-	-	202,314
Prepaid expenditures	9,774	-	-	9,774
Total assets	\$ 5,616,837	616,096	93,868	6,326,801
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,914,300	370,982	43,280	2,328,562
Salaries and benefits payable	687,902	52,751	5,607	746,260
Advances from grantors	128,888	-	-	128,888
Total liabilities	2,731,090	423,733	48,887	3,203,710
Fund balances:				
Nonspendable:				
Inventories	202,314	-	-	202,314
Prepaid expenditures	9,774	-	-	9,774
Restricted for:				
Debt service	-	-	2,513	2,513
Categorical funding	53,926	-	-	53,926
Media materials	395,000	-	-	395,000
Special education instruction	-	192,363	-	192,363
Capital projects	-	-	42,468	42,468
Committed for equipment replacement	375,000	-	-	375,000
Unassigned	1,849,733	-	-	1,849,733
Total fund balances	2,885,747	192,363	44,981	3,123,091
Total liabilities and fund balances	\$ 5,616,837	616,096	93,868	6,326,801

See notes to financial statements.

Sample Area Education Agency

Reconciliation of the Balance Sheet – Governmental
Funds to the Statement of Net Position

June 30, 2018

Total governmental fund balances (page 20) \$ 3,123,091

***Amounts reported for governmental activities in the Statement of
Net Position are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of capital assets is \$7,694,609 and the accumulated depreciation/amortization is \$3,152,769. 4,541,840

Pension and OPEB related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 2,340,598	
Deferred inflows of resources	<u>(1,123,060)</u>	1,217,538

Long-term liabilities, including certificates of participation, capital leases, compensated absences, total OPEB liability and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds. (12,725,013)

Net position of governmental activities (page 17) \$ (3,842,544)

See notes to financial statements.

Exhibit E

Sample Area Education Agency

Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds

Year ended June 30, 2018

	General	Special Revenue Special Education Instruction	Nonmajor	Total
Revenues:				
Local sources	\$ 5,577,980	3,507,185	10,953	9,096,118
State sources	7,553,767	178,362	270,148	8,002,277
Federal sources	3,134,210	-	-	3,134,210
Total revenues	16,265,957	3,685,547	281,101	20,232,605
Expenditures:				
Current:				
Instruction	3,821,951	3,456,754	266,459	7,545,164
Student support services	4,731,939	-	-	4,731,939
Instructional staff support services	5,459,930	-	-	5,459,930
General administration	2,001,974	73,045	3,689	2,078,708
Business administration	909,988	-	-	909,988
Plant operations and maintenance	363,995	-	-	363,995
Central and other support services	909,990	-	-	909,990
Facilities acquisition and construction	-	-	469,438	469,438
Debt service	-	-	148,990	148,990
Total expenditures	18,199,767	3,529,799	888,576	22,618,142
Excess (deficiency) of revenues over (under) expenditures	(1,933,810)	155,748	(607,475)	(2,385,537)
Other financing sources (uses):				
Transfers in	-	-	143,279	143,279
Transfers out	(143,279)	-	-	(143,279)
Total other financing sources (uses)	(143,279)	-	143,279	-
Change in fund balances	(2,077,089)	155,748	(464,196)	(2,385,537)
Fund balances beginning of year	4,962,836	36,615	509,177	5,508,628
Fund balances end of year	\$ 2,885,747	192,363	44,981	3,123,091

See notes to financial statements.

Sample Area Education Agency

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances –
Governmental Funds to the Statement of Activities

Year ended June 30, 2018

Change in fund balances - Total governmental funds (page 22) \$ (2,385,537)

**Amounts reported for governmental activities in the
Statement of Activities are different because:**

Governmental funds report capital outlays as expenditures while governmental activities report depreciation/amortization expense to allocate those expenditures over the estimated useful lives of the assets. Capital outlay expenditures exceeded depreciation/amortization expense in the current year, as follows:

Expenditures for capital assets	1,774,284	
Depreciation/amortization expense	<u>(479,464)</u>	1,294,820

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		107,723
---	--	---------

The current year Agency IPERS contributions are reported as expenditures in the governmental funds but are reported as a deferred outflow of resources in the Statement of Net Postion.		1,302,170
---	--	-----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	1,599	
Pension expense	(866,998)	
OPEB expense	<u>(115,728)</u>	<u>(981,127)</u>

Change in net position of governmental activities (page 19) \$ (661,951)

See notes to financial statements.

Sample Area Education Agency

Statement of Net Position
Proprietary Fund

June 30, 2018

	<u>Enterprise</u> <u>Cooperative</u> <u>Purchasing</u>
Current Assets	
Cash, cash equivalents and pooled investments	\$ 8,586
Due from other governments	3,564
Inventories	<u>958</u>
Total current assets	13,108
Current Liabilities	
Accounts payable	<u>2,216</u>
Net Position	
Unrestricted	<u>\$ 10,892</u>

See notes to financial statements.

Sample Area Education Agency
Statement of Revenues, Expenses and
Changes in Fund Net Position
Proprietary Fund

Year ended June 30, 2018

	<u>Enterprise</u> <u>Cooperative</u> <u>Purchasing</u>
Operating revenues:	
Charges for service	\$ 253,221
Operating expenses:	
Non-instructional programs:	
Supplies and materials	<u>256,552</u>
Operating loss	(3,331)
Net position beginning of year	<u>14,223</u>
Net position end of year	<u>\$ 10,892</u>

See notes to financial statements.

Exhibit I

Sample Area Education Agency

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2018

	<u>Enterprise</u> <u>Cooperative</u> <u>Purchasing</u>
Cash flows from operating activities:	
Cash received from customers	\$ 249,657
Cash paid to suppliers	<u>(257,284)</u>
Net cash used by operating activities	(7,627)
Cash and cash equivalents beginning of year	<u>16,213</u>
Cash and cash equivalents end of year	<u>\$ 8,586</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (3,331)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in inventories	154
Increase in due from other governments	(3,564)
Decrease in accounts payable	<u>(886)</u>
Net cash used by operating activities	<u>\$ (7,627)</u>

See notes to financial statements.

Sample Area Education Agency
Statement of Fiduciary Assets and Liabilities
Agency Fund

June 30, 2018

Assets	
Cash, cash equivalents and pooled investments	\$ 28,689
Due from other governments	<u>4,287</u>
Total assets	<u>32,976</u>
Liabilities	
Accounts payable	63
Due to other governments	<u>32,913</u>
Total liabilities	<u>32,976</u>
Net position	<u>\$ -</u>

See notes to financial statements.

Sample Area Education Agency

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies

Sample Area Education Agency is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 61 school districts and private schools in a seven-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Sample Area Education Agency has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Agency has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide financial statements – The Statement of Net Position and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the Agency's nonfiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The Agency reports the following major governmental funds:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Special Revenue, Special Education Instruction Fund is used to account for a program where the Agency employs teachers to provide instruction to special education pupils. The actual costs of providing instructional services to the pupils are billed to the individual school districts.

The Agency reports the following major proprietary fund:

The Agency's proprietary fund is the Enterprise, Cooperative Purchasing Fund. This fund is used to account for the cooperative purchasing activities for local school districts and activities performed as a service to staff and consist primarily of vending machine operations.

The Agency also reports the following fiduciary fund:

The Agency Fund is used to account for assets held by the Agency as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current year are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balance and then from, less-restrictive classifications – committed, assigned, and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's Enterprise Fund is charges to customers for services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses and depreciation/amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position

Cash, Cash Equivalents and Pooled Investments – Cash includes amounts in demand deposits and money market funds. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets, which include property, furniture and equipment and intangibles acquired after July 1, 1980 are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the Agency as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Intangibles	50,000
Furniture and equipment	2,000
Library books	2,000

Capital assets of the Agency are depreciated/amortized using the straight line method of depreciation/amortization over the following estimated useful lives:

Asset Class	Estimated Useful lives (In Years)
Buildings	50
Improvements other than buildings	20 - 50
Intangibles	5 - 10
Furniture and equipment	5 - 15
Library books	5 - 10

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position applicable to a future year(s) which will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension and OPEB expense and contributions from the Agency after the measurement date but before the end of the Agency’s reporting period.

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Advances from Grantors – Grant proceeds which have been received by the Agency but will be spent in a succeeding fiscal year.

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Position representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2018. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The net pension liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Total OPEB Liability – For purposes of measuring the total OPEB liability, deferred outflows of resources related to OPEB and OPEB expense, information has been determined based on the Sample AEA's actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The total OPEB liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Fund Balances – In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Directors through resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same action it employed to commit these amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash, Cash Equivalents and Pooled Investments

The Agency’s deposits in banks at June 30, 2018 were entirely covered by federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2018, the Agency had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>
U.S. Treasury Notes	<u>\$ 3,970,150</u>	October 2018

The Agency uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The recurring fair value measurement for the U.S. Treasury Notes of \$3,970,150 was determined using the last reported sales price at current exchange rates. (Level 1 inputs)

At June 30, 2018, the Agency had investments in the Iowa Schools Joint Investment Trust (ISJIT) Government Obligation Portfolio which are valued at an amortized cost of \$327,441 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals for the ISJIT investments. The investments in the ISJIT were rated AAAM by Standard & Poor’s Financial Services.

Interest rate risk – The Agency’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Agency.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2018 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated/amortized:				
Land	\$ 321,250	-	-	321,250
Building in progress	98,569	469,438	-	568,007
Total capital assets not being depreciated	419,819	469,438	-	889,257
Capital assets being depreciated/amortized:				
Buildings	1,508,844	-	-	1,508,844
Improvements other than buildings	502,658	-	-	502,658
Furniture and equipment	1,903,356	408,110	168,202	2,143,264
Intangibles	60,000	-	-	60,000
Library books	2,290,181	896,736	596,331	2,590,586
Total capital assets being depreciated/amortized	6,265,039	1,304,846	764,533	6,805,352
Less accumulated depreciation/amortization for:				
Buildings	844,953	30,177	-	875,130
Improvements other than buildings	172,344	14,362	-	186,706
Furniture and equipment	951,678	213,569	168,202	997,045
Intangibles	6,000	6,000	-	12,000
Library books	1,462,863	215,356	596,331	1,081,888
Total accumulated depreciation/amortization	3,437,838	479,464	764,533	3,152,769
Total capital assets being depreciated/amortized, net	2,827,201	825,382	-	3,652,583
Governmental activities capital assets, net	\$ 3,247,020	1,294,820	-	4,541,840

Depreciation/amortization expense was charged to the following functions:

Governmental activities:		
Instruction		\$ 145,072
Student support services		18,364
Instructional staff support services		85,511
General administration		4,038
Business administration		55,308
Plant operations and maintenance		8,437
Central and other support services		162,734
Total depreciation/amortization expense – governmental activities		\$ 479,464

Furniture and equipment within governmental activities includes \$375,000 of information technology equipment acquired under capital leases.

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 23,655	-	-	23,655
Less accumulated depreciation	23,655	-	-	23,655
Business type activities capital assets, net	\$ -	-	-	-

(4) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	Balance Beginning of Year, as restated	Additions	Reductions	Balance End of Year	Due Within One Year
Certificates of participation	\$ 750,000	-	78,993	671,007	60,854
Capital leases	257,111	-	28,730	228,381	45,268
Compensated absences	193,374	79,626	81,225	191,775	80,653
Net pension liability	8,084,306	2,225,184	-	10,309,490	-
Total OPEB liability	943,760	380,600	-	1,324,360	-
Total	\$ 10,228,551	2,685,410	188,948	12,725,013	186,775

Certificates of Participation

The Agency sold certificates of participation for land and facilities for a total of \$750,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over a period of twelve years with an interest rate of 5% per annum. The following is a schedule by year of the future minimum payments required:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 60,854	33,550	94,404
2020	63,896	30,508	94,404
2021	67,091	27,313	94,404
2022	70,446	23,958	94,404
2023	73,968	20,436	94,404
2024-2027	334,752	42,864	377,616
Total	\$ 671,007	178,629	849,636

Payments on the certificates of participation for the year ended June 30, 2018, including interest, totaled \$94,404.

Capital Leases

The Agency has entered into agreements to lease information technology equipment. The agreements are for periods of four to eight years at interest rates ranging from 5% to 8% per annum. The leases expire between June 2018 and June 2023 and also require the payment of normal maintenance charges. The following is a schedule by year of future payments required:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 45,268	9,318	54,586
2020	46,159	8,427	54,586
2021	47,012	7,574	54,586
2022	47,664	6,922	54,586
2023	42,278	3,649	45,927
Total	\$ 228,381	35,890	264,271

Payments under these agreements for the year ended June 30, 2018, including interest, totaled \$54,586.

(5) Operating Leases

The Agency has leased various facilities within the area to house the different divisions of the Agency. These leases have been classified as operating leases and, accordingly, all rents are charged to expenditures as incurred. The leases expire between June 30, 2019 and June 30, 2023. Certain leases are renewable for additional periods. Some of the leases also require the payment of normal maintenance and insurance on the properties. In most cases, management expects the leases will be renewed or replaced by other leases.

The following is a schedule by year of future minimum rental payments required under operating leases which have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2018.

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 138,416
2020	134,120
2021	134,120
2022	124,210
2023	114,320
Total	<u>\$ 645,186</u>

Total rental expenditures for the year ended June 30, 2018 for all operating leases, except those with terms of a month or less that were not renewed, was \$141,220.

(6) Pension Plan

Plan Description – IPERS membership is mandatory for employees of the Agency, except for those covered by another retirement system. Employees of the Agency are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees’ Retirement System (IPERS). IPERS issues a stand-alone financial report that is available to the public by mail at PO Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member’s monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member’s highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2018, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Agency contributed 8.93% of covered payroll, for a total rate of 14.88%.

The Agency's contribution to IPERS for the year ended June 30, 2018 totaled \$1,302,170.

Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the Agency reported a liability of \$10,309,490 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on the Agency's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the Agency's collective proportion was 0.208674%, which was an increase of 0.008918% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Agency recognized pension expense of \$866,998. At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 155,763	-
Changes of assumptions	283,846	-
Net difference between projected and actual earnings on IPERS' investments	-	858,020
Changes in proportion and differences between Agency contributions and the Agency's proportionate share of contributions	333,947	265,040
Agency contributions subsequent to the measurement date	1,302,170	-
Total	<u>\$ 2,075,726</u>	<u>1,123,060</u>

\$1,302,170 reported as deferred outflows of resources related to pensions resulting from Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2019	\$ (288,957)
2020	(288,957)
2021	(288,957)
2022	491,745
2023	25,622
Total	<u>\$ (349,504)</u>

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study date March 24, 2017.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	<u>100.0%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Agency's proportionate share of the net pension liability	\$ 18,050,062	10,309,490	3,775,892

IPERS Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS – At June 30, 2018, the Agency reported payables to IPERS of \$102,250 for legally required Agency contributions and \$68,129 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

(7) Other Postemployment Benefits (OPEB)

Plan Description – The Agency administers a single-employer benefit plan which provides medical, prescription drug and dental benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by Sample Area Education Agency and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical, prescription drug and dental benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	12
Active employees	<u>200</u>
Total	<u>212</u>

Total OPEB Liability – The Agency’s total OPEB liability of \$1,324,360 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2018)	3.00% per annum.
Rates of salary increase (effective June 30, 2018)	3.00% per annum, including inflation.
Discount rate (effective June 30, 2018)	3.58% compounded annually, including inflation.
Healthcare cost trend rate (effective June 30, 2018)	8.50% initial rate decreasing by .5% annually to an ultimate rate of 5.00%.

Discount Rate – The discount rate used to measure the total OPEB liability was 3.58% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Mortality rates are from the SOA RPH-2017 total dataset mortality table fully generational using Scale MP-2017. Annual retirement probabilities are based on varying rates by age and turnover probabilities mirror those used by IPERS.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study with dates corresponding to those listed above.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year, as restated	\$ 943,760
Changes for the year:	
Service cost	54,552
Interest	41,944
Differences between expected and actual experiences	337,631
Changes in assumptions	9,346
Benefit payments	<u>(62,873)</u>
Net changes	<u>380,600</u>
Total OPEB liability end of year	<u>\$ 1,324,360</u>

Changes of assumptions reflect a change in the discount rate from 4.50% in fiscal year 2017 to 3.58% in fiscal year 2018.

Sensitivity of the Agency's Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Agency, as well as what the Agency's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.58%) or 1% higher (4.58%) than the current discount rate.

	<u>1% Decrease (2.58%)</u>	<u>Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
Total OPEB liability	\$ 1,417,065	1,324,360	1,231,655

Sensitivity of the Agency's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the Agency, as well as what the Agency's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (7.50%) or 1% higher (9.50%) than the current healthcare cost trend rates.

	<u>1% Decrease (7.50%)</u>	<u>Healthcare Cost Trend Rate (8.50%)</u>	<u>1% Increase (9.50%)</u>
Total OPEB liability	\$ 1,165,437	1,324,360	1,483,283

OPEB Expense and Deferred Outflows of Resources Related to OPEB – For the year ended June 30, 2018, the Agency recognized OPEB expense of \$154,325. At June 30, 2018, the Agency reported deferred outflows of resources related to OPEB from the following resources:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 257,085
Changes in assumptions	<u>7,787</u>
Total	<u>\$ 264,872</u>

The amount reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year ending June 30,	Amount
2019	\$ 52,974
2020	52,974
2021	52,974
2022	52,975
2023	52,975
	\$ 264,872

(8) Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Balance

The Agency had a governmental activities deficit net position balance of \$3,842,544 at June 30, 2018, primarily due to the net pension liability.

(10) Early Childhood Iowa Area Board

The Agency is the fiscal agent for the Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. The Area Board receives state grants to administer early childhood and school ready programs. Financial transactions of the Area Board are included in the Agency's financial statements as an Agency Fund because of the Agency's fiduciary relationship with the organization. The Area Board's financial data for the year ended June 30, 2018 is as follows:

	Early Childhood	School Ready	Total
Revenues:			
State grants:			
Early childhood	\$ 22,637	-	22,637
Quality improvement	-	15,898	15,898
Allocation for administration	2,770	4,934	7,704
School ready general use	-	83,369	83,369
Total state grants	25,407	104,201	129,608
Interest on investments	18	170	188
Total revenues	25,425	104,371	129,796
Expenditures:			
Program services:			
Early childhood	25,660	-	25,660
Quality improvement	-	17,044	17,044
School ready general use	-	111,379	111,379
Total program services	25,660	128,423	154,083
Administration	2,567	8,587	11,154
Total expenditures	28,227	137,010	165,237
Change in fund balance	(2,802)	(32,639)	(35,441)
Fund balance beginning of year	4,964	44,390	49,354
Fund balance end of year	\$ 2,162	11,751	13,913

Findings related to the operations of the Early Childhood Iowa Area Board are included as items II-D-18 and IV-J-18 in the Schedule of Findings and Questioned Costs.

(11) Categorical Funding

In accordance with Iowa Administrative Code Section 98.1, categorical funding is financial support from the state and federal governments targeted for particular categories of students, special programs, or special purposes. This support is in addition to school district or area education agency general purpose revenue, for purposes beyond the basic educational program and most often has restrictions on its use. Any portion of categorical funding provided by the state that is not expended by the end of the fiscal year must be carried forward as a restricted fund balance.

The following is a schedule of the categorical funding restricted in the General Fund at June 30, 2018.

Program	Amount
Teacher salary supplement	\$ 10,780
Professional development	24,560
Other restricted projects	18,586
Total	\$ 53,926

(12) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB) was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position for governmental activities was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

	Governmental Activities
Net position June 30, 2017, as previously reported	\$ (2,648,333)
OPEB obligation measured under previous standards	411,500
Total OPEB liability at June 30, 2017	(943,760)
Net position July 1, 2017, as restated	\$ (3,180,593)

Required Supplementary Information

Sample Area Education Agency

Schedule of Revenues, Expenditures/Expenses and Changes
in Balances – Budget and Actual –
All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2018

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual
Revenues:			
Local sources	\$ 9,096,118	253,221	9,349,339
State sources	8,002,277	-	8,002,277
Federal sources	3,134,210	-	3,134,210
Total revenues	<u>20,232,605</u>	<u>253,221</u>	<u>20,485,826</u>
Expenditures/Expenses:			
Current:			
Instruction	7,545,164	-	7,545,164
Student support services	4,731,939	-	4,731,939
Instructional staff support services	5,459,930	-	5,459,930
General administration	2,078,708	-	2,078,708
Business administration	909,988	-	909,988
Plant operations and maintenance	363,995	-	363,995
Central and other support services	909,990	-	909,990
Non instructional programs	-	256,552	256,552
Facilities acquisition and construction	469,438	-	469,438
Debt service	148,990	-	148,990
Total expenditures/expenses	<u>22,618,142</u>	<u>256,552</u>	<u>22,874,694</u>
Deficiency of revenues under expenditures/expenses	(2,385,537)	(3,331)	(2,388,868)
Balance beginning of year	<u>5,508,628</u>	<u>14,223</u>	<u>5,522,851</u>
Balance end of year	<u>\$ 3,123,091</u>	<u>10,892</u>	<u>3,133,983</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Actual
		Variance
9,000,200	9,125,200	224,139
8,344,336	8,344,336	(342,059)
3,200,500	3,200,500	(66,290)
20,545,036	20,670,036	(184,210)
7,503,715	7,628,715	83,551
4,937,400	4,937,400	205,461
5,511,000	5,511,000	51,070
2,212,700	2,212,700	133,992
960,100	960,100	50,112
375,000	375,000	11,005
928,500	928,500	18,510
278,594	278,594	22,042
500,000	500,000	30,562
148,990	148,990	-
23,355,999	23,480,999	606,305
(2,810,963)	(2,810,963)	422,095
5,125,469	5,125,469	397,382
2,314,506	2,314,506	819,477

Sample Area Education Agency

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2018

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U.S. generally accepted accounting principles for all funds except Agency Funds. Although the budget document presents function expenditures/expenses by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2018, the Agency's expenditures/expenses did not exceed the approved budget.

Sample Area Education Agency

Schedule of the Agency's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Four Years*
(In Thousands)

Required Supplementary Information

	2018	2017	2016	2015
Agency's proportion of the net pension liability	0.208674%	0.199756%	0.181122%	0.178426%
Agency's proportionate share of the net pension liability	\$ 10,309	8,084	7,183	6,830
Agency's covered payroll	\$ 13,740	13,339	12,950	12,206
Agency's proportionate share of the net pension liability as a percentage of its covered payroll	75.03%	60.60%	55.47%	55.96%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

Sample Area Education Agency
Schedule of Agency Contributions
Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Required Supplementary Information

	2108	2017	2016	2015
Statutorily required contribution	\$ 1,302	1,227	1,191	1,156
Contributions in relation to the statutorily required contribution	(1,302)	(1,227)	(1,191)	(1,156)
Contribution deficiency (excess)	\$ -	-	-	-
Agency's covered payroll	\$ 14,582	13,740	13,339	12,950
Contributions as a percentage of covered payroll	8.93%	8.93%	8.93%	8.93%

See accompanying independent auditor's report.

2014	2013	2012	2011	2010	2009
1,090	985	824	765	709	656
(1,090)	(985)	(824)	(765)	(709)	(656)
-	-	-	-	-	-
12,206	11,361	10,211	11,007	10,662	10,331
8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

Sample Area Education Agency

Notes to Required Supplementary Information – Pension Liability

Year ended June 30, 2018

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Sample Area Education Agency
Schedule of Changes in the Agency's
Total OPEB Liability, Related Ratios and Notes

For the Current Year
Required Supplementary Information

	<u>2018</u>
Service Cost	\$ 54,552
Interest cost	41,944
Difference between expected and actual experiences	337,631
Changes in assumptions	9,346
Benefit payments	<u>(62,873)</u>
Net change in total OPEB liability	<u>380,600</u>
Total OPEB liability beginning of year, as restated	<u>943,760</u>
Total OPEB liability end of year	<u>\$ 1,324,360</u>
Covered-employee payroll	\$ 13,740,763
Total OPEB liability as a percentage of covered-employee payroll	9.6%

Notes to Schedule of Changes in the Agency's Total OPEB Liability and Related Ratios

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumptions:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended June 30, 2018	3.58%
Year ended June 30, 2017	4.50%

Sample Area Education Agency

Supplementary Information

Schedule 1

Sample Area Education Agency
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2018

	Special Revenue			
	Juvenile Home	Debt Service	Capital Projects	Total
Assets				
Cash, cash equivalents and pooled investments	\$ -	2,513	42,468	44,981
Due from other governments	48,887	-	-	48,887
Total assets	\$ 48,887	2,513	42,468	93,868
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 43,280	-	-	43,280
Salaries and benefits payable	5,607	-	-	5,607
Total liabilities	48,887	-	-	48,887
Fund balances:				
Restricted for:				
Debt service	-	2,513	-	2,513
Capital projects	-	-	42,468	42,468
Total fund balances	-	2,513	42,468	44,981
Total liabilities and fund balances	\$ 48,887	2,513	42,468	93,868

See accompanying independent auditor's report.

Sample Area Education Agency

Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2018

	Special Revenue			
	Juvenile Home	Debt Service	Capital Projects	Total
Revenues:				
Local sources	\$ -	6,329	4,624	10,953
State sources	270,148	-	-	270,148
Total revenues	270,148	6,329	4,624	281,101
Expenditures:				
Current:				
Instruction	266,459	-	-	266,459
General administration	3,689	-	-	3,689
Facilities acquisition and construction	-	-	469,438	469,438
Debt service	-	148,990	-	148,990
Total expenditures	270,148	148,990	469,438	888,576
Deficiency of revenues under expenditures	-	(142,661)	(464,814)	(607,475)
Other financing sources:				
Transfers in	-	143,279	-	143,279
Change in fund balance	-	618	(464,814)	(464,196)
Fund balances beginning of year	-	1,895	507,282	509,177
Fund balances end of year	\$ -	2,513	42,468	44,981

See accompanying independent auditor's report.

Sample Area Education Agency

Sample Area Education Agency

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2018

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash, cash equivalents and pooled investments	\$ 52,084	125,509	148,904	28,689
Due from other governments	-	4,287	-	4,287
Total assets	\$ 52,084	129,796	148,904	32,976
Liabilities				
Accounts payable	\$ 2,730	63	2,730	63
Due to other governments	49,354	129,733	146,174	32,913
Total liabilities	\$ 52,084	129,796	148,904	32,976

See accompanying independent auditor's report.

Sample Area Education Agency

Schedule of Revenues by Source and Expenditures by Function -
All Governmental Funds

For the Last Ten Years

	2018	2017	2016	Modified 2015
Revenues:				
Local	\$ 9,096,118	8,487,263	7,664,982	7,541,561
State	8,002,277	8,381,599	7,898,637	7,628,597
Federal	3,134,210	2,506,723	2,257,936	2,207,468
Total	<u>\$ 20,232,605</u>	<u>19,375,585</u>	<u>17,821,555</u>	<u>17,377,626</u>
Expenditures:				
Current:				
Instruction	\$ 7,545,164	7,371,921	7,260,807	7,107,821
Student support services	4,731,939	4,523,659	4,455,659	4,212,659
Instructional staff support services	5,459,930	5,322,545	5,122,145	5,009,887
General administration	2,078,708	2,009,554	2,000,987	1,999,872
Business administration	909,988	900,872	895,662	890,554
Plant operations and maintenance	363,995	360,954	357,854	355,458
Central and other support services	909,990	900,874	895,664	890,556
Facilities acquisition and construction	469,438	98,569	-	-
Debt service	148,990	45,698	-	-
Total	<u>\$ 22,618,142</u>	<u>21,534,646</u>	<u>20,988,778</u>	<u>20,466,807</u>

See accompanying independent auditor's report.

Accrual Basis					
2014	2013	2012	2011	2010	2009
7,466,145	7,391,484	7,317,569	7,244,393	7,171,949	7,100,230
7,552,311	7,476,788	7,402,020	7,328,000	7,254,720	7,182,173
2,185,393	2,163,539	2,141,904	2,120,485	2,099,280	2,078,287
17,203,850	19,375,585	17,821,555	17,377,626	17,377,626	17,377,626
7,036,743	6,966,375	6,896,712	6,827,744	6,759,467	6,691,872
4,170,532	4,128,827	4,087,539	4,046,663	4,006,197	3,966,135
4,959,788	4,910,190	4,861,088	4,812,477	4,764,353	4,716,709
1,979,873	1,960,075	1,940,474	1,921,069	1,901,858	1,882,840
881,648	872,832	864,104	855,463	846,908	838,439
351,903	348,384	344,901	341,452	338,037	334,657
881,650	872,834	864,106	855,465	846,910	838,441
-	-	-	-	-	-
-	-	-	-	-	-
20,262,139	20,059,518	19,858,922	19,660,333	19,463,730	19,269,093

Schedule 5

Sample Area Education Agency

Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Project Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Indirect:			
U.S. Department of Education:			
Iowa Department of Education:			
Special Education Cluster (IDEA):			
Special Education_Grants to States:	84.027		
Preschool Handicapped Program		35018	\$ 2,254,503
Supplemental Support Services		12K74-18	42,445
Diagnostic Evaluation Program		12K75-18	8,750
Enhancing the Parent-Educator Connection		17418	1,338
Planning, Policy and Procedures Revisions		1K42	93,065
Behavior Initiative Facilitator		15518	78,477
			2,478,578
Special Education_Preschool Grants	84.173	12-619-18	342,010
			2,820,588
Special Education-Grants for Infants and Families:			
Interagency Regional Grant, Part H	84.181	H18-R12	2,686
Early Childhood Special Education, Infants and Toddlers		H18-R13	56,256
			58,942
English Language Acquisition State Grants	84.365	18-ELA-15	46,800
Anytown Independent Schools:			
Title I Grants to Local Educational Agencies	84.010	FY18	28,452
Sperryville Community Schools:			
Title I Grants to Local Educational Agencies	84.010	FY18	7,261
Green Springs Community Schools:			
Title I Grants to Local Educational Agencies	84.010	FY18	7,209
Clear Waters Community Schools:			
Title I Grants to Local Educational Agencies	84.010	FY18	6,087
			49,009

Sample Area Education Agency
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2018

Project Title	CFDA Number	Pass-Through Entity Identifying Number	Program Expenditures
Indirect (continued):			
U.S. Department of Health and Human Services:			
Iowa Department of Public Health:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	FY18	158,871
Total			<u>\$ 3,134,210</u>

Basis of Presentation – The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Sample Area Education Agency under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Sample Area Education Agency, it is not intended to and does not present the financial position, changes in financial position or cash flows of Sample Area Education Agency.

Summary of Significant Accounting Policies – Expenditures reported in the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate – Sample Area Education Agency has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Directors of Sample Area Education Agency:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sample Area Education Agency as of and for the year ended June 30, 2018, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated September 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Sample Area Education Agency's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sample Area Education Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of Sample Area Education Agency's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-18 and II-B-18 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-18 and II-D-18 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sample Area Education Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Sample Area Education Agency's operations for the year ended June 30, 2018 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Sample Area Education Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Sample Area Education Agency's Responses to the Findings

Sample Area Education Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Sample Area Education Agency's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Sample Area Education Agency during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

MARY MOSIMAN, CPA
Auditor of State

September 17, 2018



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance
for Each Major Federal Program and on Internal Control over Compliance
Required by the Uniform Guidance

To the Board of Directors of Sample Area Education Agency:

Report on Compliance for Each Major Federal Program

We have audited Sample Area Education Agency's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2018. Sample Area Education Agency's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Sample Area Education Agency's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sample Area Education Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Sample Area Education Agency's compliance.

Opinion on the Major Federal Program

In our opinion, Sample Area Education Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The management of Sample Area Education Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Sample Area Education Agency's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sample Area Education Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified deficiencies in internal control over compliance we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-18 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-B-18 to a significant deficiency.

Sample Area Education Agency's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Sample Area Education Agency's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

MARY MOSIMAN, CPA
Auditor of State

September 17, 2018

Sample Area Education Agency
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements prepared in accordance with U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency and a material weakness in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with the Uniform Guidance, Section 200.516
- (g) The major program was the Special Education Cluster (IDEA).
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) Sample Area Education Agency did not qualify as a low-risk auditee.

Sample Area Education Agency

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-18 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Agency’s financial statements.

Condition – Generally, one individual in the Agency has control over cash receipts listings, bank deposits and posting cash receipts to the cash receipts journal.

Cause – The Agency has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Agency’s ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Agency should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff to provide additional control through review of financial transactions, reconciliations and reports.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the cash receipts listing, depositing and posting duties will be separated and spread among several employees. We plan to implement these changes November 2, 2018.

Conclusion – Response accepted.

II-B-18 Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the Agency’s financial statements.

Sample Area Education Agency

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Condition – Material amounts of receivables, payables and capital asset additions were not recorded in the Agency’s financial statements. Adjustments were subsequently made by the Agency to properly report these amounts in the Agency’s financial statements.

Cause – Agency policies do not require and procedures have not been established to require independent review of year end cut-off transactions to ensure the Agency’s financial statements are accurate and reliable.

Effect – Lack of policies and procedures resulted in Agency employees not detecting the errors in the normal course of performing their assigned functions and material adjustments to the Agency’s financial statements were necessary.

Recommendation – The Agency should implement procedures to ensure all receivables, payables and capital asset additions are identified and properly reported in the Agency’s financial statements.

Response – We will develop a policy to have an independent person double check these in the future to avoid posting missing receivables, payables or capital asset transactions.

Conclusion – Response accepted.

II-C-18 Prenumbered Checks

Criteria – Properly designed policies and procedures for expenditures include steps to detect or prevent payments to unauthorized payees and unauthorized amounts. The use of handwritten checks can circumvent established procedures.

Condition – General Fund handwritten checks were numbered as they were written.

Cause – Agency policies do not require and procedures have not been established to require checks to be prenumbered by a printer or by an independent individual.

Effect – Lack of policies and procedures may result in miscoding expenditures or duplicate check numbers being issued. Handwritten checks may also result in payments to unauthorized payees and unauthorized amounts.

Recommendation – The Agency should issue prenumbered checks by a printer or by an independent individual. Additionally, checks should be issued in the proper sequence.

Response – Prenumbered handwritten checks will be ordered from the printer beginning in October 2018.

Conclusion – Response accepted.

Sample Area Education Agency

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

II-D-18 Early Childhood Iowa Area Board – Supporting Documentation and Approval

Criteria – An effective internal control system provides for internal controls related to ensuring disbursements are properly and adequately supported and reviewed. The Area Board contracted with 7 providers. The provider contracts require detailed monthly invoices be submitted to support the services rendered. The invoices are to be submitted to the Coordinator, who is to verify the accuracy and adequacy of the documentation and approve the disbursements.

Condition – For 5 of 10 provider claims tested, adequate supporting documentation was not available or did not agree with the amount paid. For 2 of 10 provider claims tested, the claims did not include evidence of approval by the Coordinator. In addition, provider claims were not made available to the Area Board for timely review.

Cause – Although Agency policies have been adopted to require adequate documentation and approval, those requirements have not been communicated to providers. Additionally, the lack of Agency oversight resulted in lack of approval documentation.

Effect – Lack of communicating requirements to providers and oversight by the Agency may result in unauthorized and unsupported transactions and the opportunity for misappropriation.

Recommendation – All contract payments should be supported by detailed invoices or other supporting documentation as required by the provider contracts. The invoices and supporting documentation should be reviewed and approved by the Coordinator and be made available to the Area Board for timely review.

Response – We will obtain the documentation required by the provider contracts and the documentation will be reviewed by the Coordinator and the Area Board. We will comply with these recommendations for all future contract payments.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Sample Area Education Agency
Schedule of Findings and Questioned Costs
Year ended June 30, 2018

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.027: Special Education Grants to States
CFDA Number 84.173: Special Education Preschool Grants
Pass-Through Entity Identifying Number: 35018, 12K74-18, 12K75-18,
18417, 1K42, 15518, 12-619-18
Federal Award Year: 2018
Prior Year Finding Number: III-A-17, III-B-17
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-18 Segregation of Duties – The Agency did not properly segregate the
(2018-001) cash receipts listing, bank deposits and the posting of cash receipts to
the cash receipts journal, including those related to federal programs.
See item II-A-18.

III-B-18 Prenumbered Checks – The Agency issued handwritten checks which
(2018-002) were numbered as they were written, including those related to federal
programs. See item II-B-18.

Sample Area Education Agency

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-18 Certified Budget – Expenditures during the year ended June 30, 2018 did not exceed the amounts budgeted.

IV-B-18 Questionable Expenditures – Certain expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These expenditures are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Local Flower Shop	Flower arrangements for gifts	\$ 332
Local Quick Shop	Pop and food for Agency employees	239

Recommendation – According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

The Board of Directors should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the Agency should establish written policies and procedures, including requirements for proper documentation.

Response – We will document this in the future.

Conclusion – Response accepted.

IV-C-18 Travel Expense – No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.

IV-D-18 Business Transactions – No business transactions between the Agency and Agency officials or employees were noted.

IV-E-18 Bond Coverage – Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-18 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-G-18 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency's investment policy were noted.

Sample Area Education Agency

Schedule of Findings and Questioned Costs

Year ended June 30, 2018

IV-H-18 Certified Annual Report – The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-I-18 Categorical Funding – No instances of categorical funding being used to supplant rather than supplement other funds were noted.

IV-J-18 Early Childhood Iowa Area Board – The Agency is the fiscal agent for the Early Childhood Iowa Area Board, an organization formed pursuant to the provisions of Chapter 256I of the Code of Iowa. Financial transactions of the Area Board are included in the Agency’s financial statements as an Agency Fund because of the Agency’s fiduciary relationship with the organization.

Certain expenditures of \$536 for food and refreshments for meetings which may not meet the purpose for which the grant funds were provided were noted.

Recommendation – The Area Board should determine and document how these expenditures meet the intended purpose of the state grants before authorizing any further payments.

Response – We will discontinue the practice of providing meals for the monthly Board meetings.

Conclusion – Response accepted.

IV-K-18 Financial Condition – The Agency’s governmental activities has a deficit net position of \$3,842,544 at June 30, 2018.

Recommendation – The Agency should investigate alternatives to eliminate this deficit to return this fund to a sound financial position.

Response – The deficit was the result of recognizing the Agency’s proportionate share of IPERS’ net pension liability. The Agency realizes this liability is not due and payable immediately. Rather, the pension liability will be paid down over a period of time with the Agency’s future employer share of IPERS contributions.

Conclusion – Response accepted.

Sample Area Education Agency

Staff

This audit was performed by:

John Q. Review, CPA, Manager
Margo Setter, CPA, Senior Auditor
Jerome Warning, CPA, Senior Auditor
Terry Tickmark, CPA, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State